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Submission on poverty







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SUBMISSION ON POVERTY

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THE CANADIAN CHAMBER OF COMMERCE







## PREFACE

This submission is presented in the name of, and on behalf of, the Executive Council of The Canadian Chamber of Commerce which acts during the interim between the meetings of the National Board of Directors. The following views are based on, and derived from the Statement of Policy of the Chamber.

The Canadian Chamber of Commerce is the national voluntary federation of over 800 autonomous Boards of Trade and Chambers of Commerce (the terms are synonymous) in communities throughout Canada.

These community Boards of Trade and Chambers of Commerce exist to promote civic, commercial, industrial and agricultural progress in the areas in which they operate and to promote good government at all levels. Seventy-five per cent of them serve communities of less than 5,000 population. In addition, the Chamber has some 2,700 corporation members comprising businesses of all sizes, all types of enterprise engaged in production, marketing and service, and in all parts of Canada as well as twenty-nine national business and professional association members.

The Chamber, therefore, is representative of the full range of business in Canada: small businesses, agricultural, large businesses, unincorporated businesses, sole proprietorships, partnerships and professionals in which the employees of these enterprises economic future depends upon the success or failure of these enterprises.

*The Chamber yields to no group in its concern for the quality of life of all Canadians and in its determination to discharge its social responsibility in addition to performing its economic tasks. If this Brief seems to address itself largely to the practical and economic aspects of the poverty problem in Canada, rather than to the humanitarian values, let it be noted that we speak for business and make no apology for concentrating on features with which we are in daily contact and on which we should have experience and specialized knowledge and which we sincerely are prepared to place at the service of our disadvantaged fellow citizens. As our Policy Statement indicates, we believe that sustainable social betterment depends on healthy, competitive enterprise and economically strong Canadian enterprises.*



## INTRODUCTION

1. The social security programs of all Canadian governments have grown so rapidly in recent years, involving such a large percentage of taxation revenue, that the Chamber welcomes an in-depth objective appraisal of the whole range of policies now in effect. In any such re-examination, three broad criteria should be applied in judging the efficiency of any particular program. First, its impact on the growth and development of the Canadian economy. Second, its effectiveness in alleviating poverty and ultimately removing its causes. Third, any area of overlap with other programs.
2. Canada has the human, material and technological resources to provide a rising standard of living and a betterment of the quality of life for all Canadians. To achieve this, we should make the most effective use of such resources and distribute the resulting output in a manner that will strike that balance between the levels of consumption and investment needed to ensure the optimum rate of growth of the Canadian economy. From the social security point of view, this involves first the marshalling and effective use of all resources, including the efforts of the individual; second, in the words of the late Sir Winston Churchill, bringing the magic of averages to the benefit of many in the form of insurance; and thirdly, the granting, where necessary, of financial assistance as a supplement by government.
3. The Canadian economy is capable of meeting social needs and there need not be nor should there be privation or destitution in this country. Although it is now possible to reconcile economic



potential and human needs, limits must be established against unrealistic demands which place a brake on economic growth. The potential of the economy cannot always keep pace with the growing and glowing promises of some who compete for political power.

4. Those who plan and develop social welfare programs should guard against short-term palliatory measures at the expense of long-term growth in the living standards of the entire population.

5. The Chamber has over a number of years articulated several policies in the field of SOCIAL SECURITY and EMPLOYMENT OF SPECIAL CATEGORIES OF WORKERS. The following views represent the considered and adopted views of the business community as represented by the Canadian Chamber which is described in the Preface.

### *Social Security*

128. *Canada's social security philosophy, policies and programmes should recognize that most Canadians can, and wish to, provide for their own security. Those who cannot, through no fault of their own, should be treated with compassion and provided with selective and restorative remedies.*

129. Canada's educational systems should inculcate self-reliance in order to deal with a complicated and complex world. It should also engender a care for the community and a capacity for independent thought, and an acquisition of skills for today's increasingly competitive world.

130. Owing to the fact that Canada has now an urban rather than a rural-based population, it may appear desirable on a pragmatic basis to develop contributory, state-administered schemes. In such an eventuality, care should be taken to provide a public advisory body with members drawn from representative bodies in the community. Care should also be taken for a statutory exhaustive review of public plans so that these are kept modern and purposeful.

131. Since social security is a matter of divided jurisdiction in Canada, federal-provincial liaison groups should continue to function and should resolutely prune over-lapping programmes to the end that the saved funds be put to better use elsewhere if they are needed, or to the relief of the already heavily-burdened Canadian taxpayer.

132. Finally, the Chamber realizes keenly that there is a poverty problem in Canada and agrees that the poverty cycle must be broken. The business community in Canada is one of the central instruments for dealing with this problem. It is already engaged in making its contribution firstly by way of providing employment, by way of training, retraining, industrial medicine, counselling, etc. It continues to pledge its resources and skills in a resolute and effective battle towards eliminating poverty in Canada.



## ***Employment of Special Categories of Workers***

98. *The full utilization of Canada's manpower resources is essential for our economic advance. Employers should be cognizant of the important contribution that special categories of workers, e.g. older or handicapped persons, can make to our nation's productive effort.*

### ***Employment of the Older Worker***

99. Studies have indicated that the older worker, if properly placed, can compare favourably in performance with other workers and can make a considerable contribution to the production of the country. Furthermore, the older worker group represents a reservoir of skill and experience that the country can ill afford to waste. The addition of older workers to our labour force would enlarge our productive capacity.

### **100. Recommendation:**

*that Canadian employers recognize the skill, experience and reliability of older workers and give consideration to the suitable employment of this group to the fullest extent practicable.*

### ***Rehabilitation Program***

101. Future financial assistance by the Federal Government should be directed only to the areas in which the individual is unable to help himself, to the indigent, the aged, the chronically ill and to those who suffer catastrophic medical expense. It is for the above groups, and for the physically, socially or mentally handicapped who, lacking services, are likely to fall into these groups, that rehabilitation is an investment in human welfare which should be adequately supported by Federal assistance.

102. The beginning of the rehabilitation of a patient is the adequate, proper, skilled medical and surgical care that the individual receives at, or soon after, the time of his primary illness or injury. These medical services, together with physical restoration, psychological, social and vocational services should be supplied as necessary, so that the ultimate goal of complete rehabilitation is achieved.

103. A co-ordinated rehabilitation program combining physical restoration, social, psychological and vocational services is a money-saving device, bringing satisfaction and independence to the severely handicapped.

104. The rehabilitation of all handicapped persons must be aided by work assessment, counselling, guidance and help in job-placement and retraining where necessary. In this respect, existing facilities in the community, such as technical institutes and business schools, should be used.

105. The rehabilitated individual will be an economic asset to employers, and rehabilitation methods should be based on sound knowledge and experience. By applying common sense, the procedures can be kept simple and inexpensive, and where possible should be carried out in the local community, using available public or private services. We commend the Government for its legislative action in this field and will continue our efforts to encourage our members to provide suitable employment opportunities for disabled persons in accordance with their

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**106. Recommendations:**

- 1. that the Federal Government encourage and support the Provinces in every way possible to develop co-ordinated rehabilitation programs which will provide such facilities and services as are necessary to bring comprehensive rehabilitation to those individuals who can benefit.*
- 2. that in developing such services, the fullest co-operation of employers, workers, government and voluntary agencies be encouraged.*

***Employment of the Handicapped***

107. It is suggested that many jobs do not require the full capacities of an able-bodied person. If a handicapped person still has the required capabilities, he is not handicapped in that particular job.

108. Experience has proven that persons with various degrees of mental retardation can be satisfactorily employed in many jobs suited to their capabilities. Moreover, the importance of returning persons recovered from mental illness to productive employment without undue delay cannot be over-emphasized.

109. Many persons in our society are socially handicapped. These include the individual with a prison record, the indigent, the alcoholic, and those with inadequate education. With counselling, assessment, basic education, retraining and job placement, they can be productive and stable in employment.

**110. Recommendations:**

- 1. that employers continue to co-operate in the placing of those with physical, mental or social handicaps in suitable jobs wherever possible; and*
- 2. that employers who have not already done so investigate the possibility of employing those with physical, mental or social handicaps.*

***Seasonal Unemployment***

111. *Unused capacity, lessened employment, and idle equipment is an economic waste that Canada can ill afford.*

112. Seasonal unemployment in Canada is a problem meriting serious consideration and discussion because it involves a recurring annual waste of manpower and frequently of productive capacity. We recognize the solving of this problem is the responsibility of all groups in Canada. We pledge our co-operation in efforts to solve this national problem.



ECONOMIC CRITERIA FOR THE AMOUNT AND EXTENT OF HEALTH AND SOCIAL WELFARE

6. Before considering individual plans, it will be helpful to establish further criteria for evaluating the immediate direct and longer term indirect effects of decision in the social security field.

Need

7. Concepts of need have changed rapidly with the passage of time. The actual amounts required in Canada vary greatly with geographic regions, between urban and rural areas, and with family composition. Poverty is often looked upon as a relative condition. Furthermore, despite the claim of some that just as many people are poor today as twenty-five years ago, it is beyond doubt that cases of absolute need now constitute a much smaller proportion of the population than at any time in our history. The interpretation of statistics on poverty is further confused by the fact that the popular concept of poverty envisages a level of income much below that believed necessary by those with responsibilities for social security.

8. Any definition of poverty must therefore be inexact. Qualitatively, this is the state in which the individual is unable to command the necessities of life. Statistically and economically, it is an income level which does not provide a minimum living standard. Today the guideline accepted informally by the federal government and other groups places the so-called "poverty line" at \$1,500 per annum for an individual and up to \$4,000 for a family of five or more (1 - next page



(1)

The Economic Council in its Fifth Annual Review has endorsed a D.B.S. census monograph on low income families in 1961 (J.R.Podoluk, Incomes of Canada, D.B.S. Census Monograph, 1968) which contains two estimates of "total poverty". Under the first, low income families and individuals were defined as those using 70% or more of their income for food, clothing and shelter. In the second estimate, it is assumed that 60% or more is spent on the necessities indicated. Using these guidelines, poverty lines were defined as:

	<u>Lower Estimate</u>	<u>Higher Estimate</u>
Single persons	\$1,500	\$2,000
Families of two	2,500	3,500
Families of three	3,000	4,000
Families of four	3,500	4,000
Families of five or more	4,000	5,000

9. While these levels of income are below desirable levels for Canadians today, the standard of living which they represent is well above that enjoyed by all but those in the upper income levels of the last century. It should be noted too, that these poverty guidelines represent standards of living greater than that enjoyed by a large proportion of the population in most countries outside the North American continent today. They relate to a level of wages and salaries well above that found in most nations who compete with the output of Canadian workers in both foreign and domestic markets. As a matter of record, average income per person in Canada was about \$2,250(2) (U.S. funds) for 1968. The comparable figure was about \$1,700 per (2) year for Germany, the strongest economy in Western Europe and one from whom our own government has borrowed. The level for Great Britain was similar. The average income in Japan, by no means an underdeveloped country, was \$1,100 per annum in 1968. (2)

#### DEFINITION OF POVERTY

10. It may help to clarify our thinking if we remind ourselves that poverty has many faces. The most permanently poor are those people who are normally incapable of earning a living, such as

Source: I.M.F. - Int'l Financial Statistics. U.N. Yearbook of Nat'l Acc'ts Statistics, 1968. Data for 1967, updated one year by The Canadian Chamber of Commerce, using U.N. data.



the disabled or the deserted mothers with children. Second, there is the life-cycle poverty which occurs at predictable periods when people cannot work because of youth or old age. Finally, there are those who are in temporary financial stringency because of illness or other catastrophic developments. In more normal times, the people suffering from life-cycle or contingency poverty may be perfectly capable of meeting their own needs. In fact, during normal periods, some undoubtedly have enjoyed an above-average income. Their need is clearly for insurance. Those normally unable to work, on the other hand, are candidates for social security.

11. A little reflection leads to the conclusion that Canada's social security program has gone a long way towards meeting minimum requirements. The much greater question which faces this country today is whether those with some income, but who are still poor, when measured by the standards set by the Economic Council, should receive governmental assistance. Before answering this question, it is necessary to assess Canada's ability to pay and other contextual questions.

#### Canada's Ability to Provide Social Security Payments

12. Because a plan may be financially feasible, given the government's borrowing and taxing authority, it does not necessarily follow that it is physically possible and economically beneficial. A crucial criterion in evaluating a social security program must be a nation's ability to provide the physical as well as the financial resources needed. At the federal level alone there are over 200 (1) programs for human development, with an annual bill of \$5.5 billion, (2) Provincial governments are currently budgeting about \$3.1 billion (2) for health and welfare. And municipalities spend another \$130 million. (2) Thus, the total welfare bill is more than \$8.7 billion. These figures (cont'd)

(1) Source: Speech by Dr. Joseph Willard, Deputy Minister of Health & Welfare  
Speech to Montreal Economics Association, March 1969.

(2) Source: See Appendix 1.



do not take into account the very substantial outlays for education made by the various Canadian governments. (Note Appendix 1). These figures are equivalent to more than four-hundred dollars for every person in this country. If the bill is related to the number of employed people in Canada - who generate the incomes which are taxed directly or indirectly to support social security - the burden on each worker already exceeds eleven-hundred dollars.

13. It does not seem reasonable for public authorities to encroach further upon incomes, thus endangering private initiative. This view rests on a solid statistical base. In 1969, for example, revenues of all governments in this country were equivalent to 37.8% (1) of the gross national product. This ratio far surpasses that of the United States, Japan and Australia, which possess strong and dynamic economies. 37.8% compares with a figure of 28% (2) for 1944, a year in which the government's war outlays reached their peak.

14. There is evidence that we are caught in a vicious circle. We increase governmental expenditures for social security and other purposes, impose new taxes, increase prices and devalue earnings and savings thus pushing more people towards the poverty line, with a resulting demand for more governmental assistance

15. This circle is demonstrated in Appendix II. When a nation is faced with unemployment, idle plant capacity and other unused productive resources, increased expenditures by consumers, industry and/or government all have beneficial effects and lead to an increase in economic activity. Thus, during such periods in the past, governments were able to make increased outlays for social security purposes with pronounced beneficial effects on both industry and the economy. It is now generally recognized that deficit financing can

(1) Source: U.N. Yearbook of Int'l Statistics. (2) DBS.



promote economic expansion as long as productive resources are not fully employed (left side of spiral).

16. However, once full employment has been reached, (right side) increased government expenditures do not produce more goods and services but only serve to upset the delicate balance between investment and consumption required to maintain the economy at full employment without inflation.

17. Unfortunately this dramatic change in cause and effect which occurs once resources become fully utilized is all too frequently ignored by governments. They point to the past benefits that have been achieved from higher social security outlays and demand more of the same. An increase in demand without any compensating expansion in the production of goods and services must inevitably lead to inflationary price increases, particularly when the accompanying loss of confidence and the inevitable higher taxes which occur under such conditions retard the volume of new investment required for the needed expansion in productive capabilities.

18. The Canadian economy is today in the steeply upward stages of this spiral. Rising prices, wages and taxes have been accompanied by lower profits and capital investment. Inflationary pressures continue to build up and, at the same time, government spending grows at close to thirteen percent per annum. The restraint on private demand imposed by government to contain inflation is leading us back to a situation of high unemployment. Eventually the situation is compounded by the unfortunate combination of serious unemployment and inflation at the same time.

19. The task facing Canada in 1970 and beyond is to break this vicious spiral by restoring a measure of financial prudence in the



conduct of government. Otherwise the continuation of this spiral will destroy the purchasing power of the savings of a larger proportion of people, and thus push more people, even those in the upper-middle income group, to the point where they too become candidates for welfare assistance.

#### Economic Effects of Increased Social Security Expenditure on Canada's Growth Potential

20. The effect of social security expenditures on the rate of growth and development of the overall Canadian economy merits the most critical examination. To expand social security plans or to add new ones, can greatly alter structural and environmental conditions which in turn exert a determining influence on the growth of the economy. The explanation is simple: economic growth and progress is heavily dependent upon productive capabilities, which in turn requires high investments to increase plant capacity and equally large capital outlays to achieve the improvements in productivity made possible by adopting the latest technological advances.

21. The full magnitude of these capital needs is illustrated by the figures in the following table. During 1968 ( the most recent year for which figures are available), Canada had to turn to imported capital for \$100 million of its capital needs. Even if only moderate economic growth is achieved, this shortfall will rise to \$4.0 billion (see Table 1) by 1975. If Canada experiences a 5.5% growth rate, which is considered barely adequate, the shortfall will be \$5.0 billion. And if this country were to grow at its full



potential of 7% per year - which is well within our productive capabilities, given appropriate economic policies - then the need for imported capital rises to \$8.6 billion by 1975. The figure is so much higher than that for median growth, because of the restructuring of the Canadian economy which would take place, i.e. the greater concentration on the high productivity industries and the gradual phasing out of the industrial enterprises with low income generating potentials.

TABLE 1

CANADA - CAPITAL REQUIREMENTS AND DOMESTIC SAVINGS  
(billion current dollars)

	<u>1968</u>	<u>1975 Forecast</u>		
		<u>4% G.N.P. growth</u>	<u>5.5% G.N.P. growth</u>	<u>7% G.N.P. growth</u>
<u>Domestic Disposition of Funds</u>				
Business Investment	9.9	20.3	24.4	33.0
Housing	2.8	5.9	6.1	6.3
Inventory Change	<u>.7</u>	<u>1.0</u>	<u>1.5</u>	<u>2.0</u>
Total Domestic Disposition of Funds	13.4	27.2	32.0	41.3
<u>Domestic Sources of Funds</u>				
Personal Savings	4.0	9.8	10.5	11.2
Business Savings				
-undistributed profits	1.5	2.9	3.2	3.6
-capital consumption allowances	7.3	12.4	13.1	13.8
Government Balance				
-pension plans )	.8)	1.0	1.2	1.4
- all other items)		-2.7	-1.2	2.7
Other items	<u>-.3</u>			
Total Sources of Funds	13.3	23.4	26.8	32.7
	<u>-0.1</u>	<u>-3.8</u>	<u>-5.2</u>	<u>-8.6</u>

Source: 1968 D.B.S. 13.001 National Income and Expenditure Accounts, 4th quarter 1968. 1975 Chamber of Commerce studies.



### Shortfall of Domestic Funds

22. Because Canada must compete for its investment funds in world markets where capital will be in short supply, profit opportunities in this country must compare favourably with other nations. For the great majority of manufactured goods at least, this is not the case at present. What is required therefore are costs and taxes at rates sufficiently low to enable Canadian manufacturers to remain competitive in world markets. These are the harsh realities of the times, and in devising social security programs these facts must be taken into account or living standards will fall regardless of even the most comprehensive of social security plans.

23. The nation might even fail in maintaining the priority in any social security program which, of course, is full employment. But preoccupation with economic difficulties should not be permitted to obscure the truly enormous improvement in living conditions that will be attained during the next generation if we use our resources wisely and effectively. Canada has the human and material resources necessary to achieve an increase of 7% per annum in gross national product. In fact, if this country's economy were to grow at a 7% rate for the rest of this century, Canadian G.N.P. by the year 2000 would be equal in size to that of the United States for 1963. This is a truly staggering potential.

24. If Canada can achieve this high and steadily rising level of economic activity, the benefits to every individual in Canada are truly amazing and truly beneficial in terms of human dignity and quality of life. These include more job opportunities, rising incomes, more funds available for needed social security and rising living standards for all. It is surely true that unless there is



economic growth, there will soon be no increased income and no wealth redistribution.

Growth alone may not cure poverty, but poverty will most certainly not be cured without buoyant sustained growth. Distributed poverty may provide equality, but new wealth must be produced and distributed if poverty is to be eliminated.

### Incentive

25. One of the most serious problems of extensive social security is the incentive or disincentive to work which it may create in the recipient. There are at least two schools of thought. One maintains that if you give a man enough money so subsist, we believe generally you will destroy his incentive to work. In fact, there are places which have come to accept handouts as a way of life. According to this viewpoint, not welfare, but retraining is the solution to poverty.

26. On the other hand, another school insists that if you assure a man enough money to buy the basic decencies of life, you motivate him to work for more money. To some extent, both of these propositions are largely untested in Canada, although work is being undertaken in other countries.

27. Before Canada commits itself to any new plan, such as, for example, the guaranteed annual income, far more intensive and skilled research and investigation must be undertaken by social scientists, economists, financial experts and governments. In addition, considerable experimentation with carefully designed pilot projects are needed. One of the most outstanding research projects in this field is the experiment with graduated work incentives undertaken in New Jersey and Pennsylvania in mid-1968. The recently-published preliminary results indicate that graduated income supplements may motivate people to work. Nevertheless, even the people in charge of the project are not yet convinced that such a program has uniformly favourable effects. Further experimentation on their evaluation is required in Canada.



28. However, this debate about incentive overlooks the real difficulty. And it is that if any group is assured substantial welfare assistance without working for it, a much larger proportion of the population whose efforts must support those on welfare out of their productive efforts will eventually lose their incentive to labour. This is a far more serious consideration in light of the fact that even now Canada's growth in real dollars is practically horizontal.

#### Universality

29. Many of this country's social security benefits have taken the form of demogrants or universal payments. This has resulted in funds which might otherwise have been available for welfare and benefit being diverted from areas of need to areas of non-need. For example, the annual old age security disbursements of the order of \$1.7 billion (1) per year are not sufficient even with old age supplements to prevent claims of want and privation for at least half of the over 65 population, largely because of the proportion paid to those who don't need it. Family allowances which cost \$600 million are at too low (2) a level to break the poverty cycle for some of the younger generation while \$300 million of this amount is paid to those who don't really need this help. Even the Canada Pension Plan, which was supposed to relate contributions to benefits, heavily subsidizes those who need it least. For example, a person retiring 10 years after the plan started will receive a pension worth \$15,000 more than the contributions

(1) Source: The Nat'l Finances, 1969-70, page 112, Tab 59.

(2) Source: The Nat'l Finances, 1969-70, page 122, Tab 65.



paid on his behalf even if he were a millionaire.

30. The present taxes raised for these purposes would have accomplished much more in the alleviation of real need had we relied on selectivity instead of universality in drafting our social welfare plans. This is the obvious solution in any extensions of existing plans or in the development of any new plans. It is to be hoped that the Prime Minister's statement that "What we need now is more selective programmes which will meet the needs of the dispossessed and the underprivileged" will be rigorously followed.

31. Every industrially advanced society has adopted the obligation to assist or provide for the less privileged. But we must not overlook the fact that most people in our society are capable of achieving such a standard by their own efforts. The main objective should therefore be to provide the opportunity to do so. Much can be said for the inherently therapeutic value of, and the strong need to, work.

32. Thus far, this belief in the obligation of the more privileged to assist the less privileged has developed criteria for evaluating welfare proposals, including need, ability to pay, effect on economic growth, incentive and opportunity. The point is made that universality should be re-examined and more effectively employed in meeting the needs of the poorer and lower income groups. This country should remind itself that the most important requisition for the well-being of all is a growing and prosperous economy with full employment and rising incomes. If this goal is achieved, moreover, there will be less need for some of the social security measures aimed at income redistribution, which had their basis in the depression psychology of the nineteen-thirties.



### GUARANTEED ANNUAL INCOME (G.A.I.)

33. In the Guide for the Submission of Briefs to the Special Senate Committee on Poverty, there is an indication under Poverty Programmes, that the Committee would be specifically interested in such matters as the Guaranteed Annual Income, Negative Income Tax, and Income Maintenance Policies. We respond to this request in a preliminary way, having in mind the fact that two White Papers on matters related to social security have still not been published. The first of these, of course, is, according to a press story, a White Paper from the Minister of Labour on Unemployment Insurance changes. The second is the White Paper on Social Security mentioned in a Speech from the Throne on October 23rd, 1969. Following publication of these White Papers the Chamber will naturally be in a better position to make further representation and would welcome the opportunity to do so.

34. The guaranteed annual income approach to social security is presently under consideration by the Canadian government. For this reason it will be examined in some depth in this brief.

### Universal Payment

35. The proposals take two main forms. The first is that espoused by the American Robert Theobald, who would give to everyone with income below an established poverty line enough money to bring him to that poverty line.

36. A major criticism of this approach is that it would destroy the incentive to work of all those below the poverty line and, to some extent, a number of those above the line as well. Theobald's defence is that "Americans in all income classes have an almost



pathological desire to toil". This assumption, however, is of doubtful validity, particularly when a guaranteed income is in such form that an extra dollar earned from work means a dollar less in welfare payments.

37. Related to this problem is the enormous cost of a guaranteed annual income. Rough estimates of the cost of such a program to Canada will be discussed in a later section of this brief.

#### Negative Income Tax

38. The second major type of G.A.I. currently under discussion is the negative income tax, whose strongest proponent is the economist Milton Friedman. According to his plan, a family with an income below an established poverty line would receive an income supplement which would be a percentage of the difference between the two. If, for example, the poverty line is \$3,000, the family's income is \$2,000 and the percentage of negative tax is 50%, the supplement would be half of the difference or \$500.

39. The advantage of this approach is that it retains the incentive to work, because an extra dollar of earned income reduces welfare benefits by only a proportion of that dollar. Its cost is naturally less than that of the full G.A.I.

40. Professor Friedman advocates the negative income tax as a replacement for, rather than a supplement to, all current welfare programs. While this would undoubtedly be more economical than if the G.A.I. were merely "stacked" on top of existing programs, sole reliance could not be placed on this approach. Such an income guarantee, for example, could not replace medical and hospital



programs, counselling and related social services, retraining and rehabilitation programs and other similar personal service programs.

41. The offsets to the cost of a negative income tax plan, therefore, narrow down to:

- (a) The cost of Canada Assistance Plan and related provincial and municipal benefits.
- (b) The O.A.S., O.A.S. Supplement, Family Allowances, C.P.P. and Unemployment Insurance, Widows' Disability and similar benefits payable to those whose total income including these benefits falls below the base established for the payment of a guaranteed annual income.

#### SOME EXISTING SOCIAL SECURITY MEASURES

42. As mentioned previously, we understand that White Papers with attendant up-to-date information will be available. In the absence of such information, we would make some preliminary comments on certain social security measures. For such varying reasons as political realities and common sense, it appears to us that while some existing social security measures might be unwound, others might require more funds and indeed new bold functional programs might be required.

43. Our purpose in making the foregoing preliminary statement is to provide a cautionary note that it is by no means certain that a G.A.I. scheme will eliminate vast sums from our present social security programs and there is the distinct possibility of stacking a G.A.I. scheme on top of an already burdensome welfare bill which in Canada is increasing at a high rate.

#### Cost to Canada of a Guaranteed Annual Income

44. Estimates of the cost to Canada of a guaranteed annual income (G.A.I.) have been prepared, using as a definition of the poverty line the figures espoused by the Economic Council of Canada. In addition, a number of re-



finements have been made.

- (a) The first estimate assumes that the poor are brought up to the "low" poverty lines espoused by the Economic Council.
- (b) The second estimate raises these poverty lines by \$500, to take account of inflation. It should be recalled that the Council's calculations were based upon 1961 income data, and that consumer prices have advanced by 30% since then.
- (c) The third estimate raises the poverty lines by an additional \$500, to illustrate what might happen in these circumstances.

45. In addition to this range of refinements, we have made two assumptions with regard to the incentive effects of income guarantees, neither of which may be fully implemented. The less costly assumption is that everyone under the poverty line who currently works continuously to do so, and uses the G.A.I. as a supplement to earned income. The more costly assumption, on the other hand, is that everyone under the poverty line ceases to work and relies on the G.A.I. and other welfare benefits to make up the difference to the officially established minimum income. On the basis of the three assumptions regarding poverty lines and the two regarding the incentive to work, we have developed the following

matrix of the additional cost to Canada of a guaranteed annual income.

TABLE 2

CANADA - ADDITIONAL COST OF GUARANTEED ANNUAL INCOME<sup>(1)</sup>  
(million dollars )

<u>Based on these poverty lines</u>	<u>if those below the poverty lines</u>	
	<u>continue to</u> <u>work</u>	<u>Cease to</u> <u>work</u>
1. The Economic Council (2)	\$ 951	\$2,151
2. The Economic Council, plus \$500	1,520	3,429
3. The Economic Council, plus \$1,000	2,153	4,917
<u>Sources:</u> DBS 13-528 "Income Distribution and Poverty in Canada, 1967" DBS 93-609 Vol. II, "1966 Census of Canada, Households & Families" Calculations based on Chamber of Commerce Studies.		

See page 7 of this Brief.

46. These figures are enormous. The most favourable assumptions would still result in additional costs of about one billion dollars, or in an increase of 11% in the nation's present welfare bill. However, it is possible that some on low income would take advantage of such a scheme and cease to work. Even more costly is the possibility that the low-middle income groups immediately above the poverty line would lose their incentive to work as well. The cost of this latter possibility cannot, of course, be included in these calculations.



47. To place these cost figures in a proper perspective, we have related them to the income of taxpayers who must in the final analysis foot the bill for welfare schemes. For this purpose we have selected the minimum poverty lines, have made separate calculations and have made two assumptions; (a) that the recipients will continue to work, and (b) that the recipients will cease to work. The additional cost of the programme will be in the case of (a) \$951 million, and in the case of (b) \$2,151 million.

TABLE 3

CANADA - ADDITIONAL COST OF A MINIMUM G.A.I.  
TO INDIVIDUAL TAX PAYERS  

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(based on 1967 income tax data)

The cost of a minimum G.A.I. as a percent of the total income of individual taxpayer, according to whether it is borne by taxpayers with gross income of

	<u>\$7,000 or more</u>	<u>\$8,000 or more</u>	<u>\$10,000 or more</u>
<u>Assuming that people below the poverty lines</u>			
continue to work (\$951 MM)	6.1%	7.8%	11.9%
cease to work (\$2,151 MM)	13.8%	17.7%	26.9%

Sources: See Table 2, page 21.

48. The cost appears even more burdensome when it is related to the present income tax bill of individuals. This is illustrated by the following table.

TABLE 4

CANADA - ADDITIONAL COST OF A MINIMUM G.A.I.  
TO INDIVIDUAL TAXPAYERS  

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(based on 1967 income tax data)

The cost of a minimum G.A.I. as a percent of the present individual income tax bill, according to whether it is borne by taxpayers with gross income of

<u>\$7,000</u> <u>or more</u>	<u>\$8,000</u> <u>or more</u>	<u>\$10,000</u> <u>or more</u>
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Assuming that people below the poverty lines

continue to work (951 MM)	38.4%	45.8%	61.7%
cease to work (\$2,151 MM)	87.0%	103.5%	139.5%

Sources: See Table 2.

49. High though these figures may seem, it should be remembered that they represent the cost of income guarantees at the minimum poverty lines, with no allowance for cost of living increases or for the natural generosity of politicians. We do not claim that these figures are precise, given the imprecise parameters of the problem (work, no-work, varying poverty lines etc.), but given our assumptions they are better than ballpark figures. Because of the Chamber's interest in these matters, we conducted a seminar at our latest Annual Meeting (Halifax, October 1969) under the title "Welfare of Canadians and Canadian Welfare". We commissioned for that seminar a study by Prof. Otto Th  r, then Chairman of the Department of Economics, University of Montreal, and now, as Honourable Senators know, Vice-Chairman of the Economic Council of Canada.



50. The study was a commentary on the Canadian Welfare Council's study "Social Policies for Canada - Part I". Prof. Thür's estimates for a G.A.I. programme range from, in round numbers, <sup>\$1.4 billion</sup> \$500 million to \$3.6 billion. The differences, of course, are accounted for in the tailoring of the G.A.I. plans. As a contribution to the Senate Committee's documentation, we are attaching to this Brief a copy of Prof. Thür's study.

#### Summary on Guaranteed Annual Income

51. Thus, it can be seen that the implementation of a guaranteed annual income can be extremely costly. Just as important, the specific effects of such a program on the poor, on wage earners and on the economy general have not yet been demonstrated. We have before us the example of Great Britain, with tremendous emphasis on welfare and cradle-to-grave benefits and the condition of that country's economy in recent years is not one to emulate.

#### Some Views on Social Security for Canada

52. There will always be a need for protection against the hardship caused by unemployment, old age, sickness, death and other contingencies. Experience has shown that protection based on the insurance principle is effective, fair and economical. Canada in some welfare policies has adopted the principle. This must be supplemented with programs for counselling, training, education and adequate housing.

53. At this point, there arises the question of priorities. This submission has concentrated largely on the distribution of incomes between the poor, the low, middle and upper income groups. But there is a larger question of the distribution of gross national expenditures between the three that will promote the most rapid rate of advance in living standard without sacrificing the great opportunities for the advancements in material well-being that are so clearly discernible over a decade or more

54. The changes that have taken place during the short period of the decade of the sixties are evident in the table below.

TABLE 5

CANADA - SELECTED ECONOMIC INDICATORS AND FORECAST FOR 1975  
(billion dollars)

	1959		1967		1969		1975					
	\$	% of GNP	\$	% of GNP	\$	% of GNP	Value			% of GNP		
Consumer Outlays	22.6	64.7	37.7	60.7	44.8	60.9	78.5	80.3	82.9	65.0	61.0	59.3
Consumer Savings	1.36	3.89	4.00	6.4	3.79	3.1	9.8	10.5	11.2	8.1	8.1	8.0
Govt Spending incl. transfers	10.41	29.8	21.2	34.1	25.9	35.1	45.9			36.0	35.4	32.0
Business Investment	5.16	14.8	10.27	16.5	10.55	14.3	20.3	24.4	33.0	16.8	18.8	23.6

Source: The Canadian Chamber of Commerce Studies;  
D.B.S.-13-001; Nat'l Income Expenditure Accts.

55. If government expenditures increase beyond the rate of growth in the economy concomitant changes must occur in the incomes of other sectors of the economy. In the case of Canada, the group that have suffered most severely have been consumers. Consumer expenditures as a percent of gross national product have declined from almost 65% in 1959 to less than 60% today. Under any drastic redistribution of funds in favour of the state it is most difficult to improve the lot of the poor.

56. From a longer term standpoint this diversion of funds from the private to the public sector would have an even more ominous effect. Studies (Table I) have shown the amount of capital outlays that must be made annually to achieve various rates of improvement in productivity in various levels of economic growth. The sums are truly enormous and it should be remembered that if there is one



principle on which most economists agree, either on the left or the right, it is that the test of a viable and progressive economy is the amount of capital expenditures. The harsh fact is that based on our present productive capabilities the imposition of even a billion dollars to finance a guaranteed annual income on top of this upward trend of government expenditures would so adversely affect the level of savings that the amount of capital generated under such circumstances would be quite inadequate either to provide the additional plant capacity needed to absorb Canada's growing labour force or to permit the adoption of the technological changes required for improved productivity, higher incomes and rising living standards.

57. Any group objectively concerned with the healthy growth of the economy and the well-being of the people must ask themselves whether the present trend towards ever-increasingly larger government expenditures is fair and equitable. If government expenditures could be reduced substantially or if a standstill arrangement could be agreed upon, then the country has the resources to affect a short-term improvement for the lot of the poor and the lower income groups without jeopardizing the long-term advance and the material well-being of all Canadians.

58. The issue facing Canada is whether those in government who would materially improve the lot of the poor and at the same time authorize huge sums for conservation of natural resources are themselves willing to take the initiative to institute the necessary reforms in the management of government affairs. To attempt to obtain the funds needed by any other means must, in the long run, worsen the conditions of those whose well-being they wish to improve.

CORRECTIONS TO SUBMISSION ON POVERTY - JUNE 1970

- 1) Page 24, Paragraph 50, 3rd line should read: "\$1.4 billion to \$3.6 billions".
- 2) Page 25, Paragraph 54, Table 5: The 1975 bar in respect of value should have in the first column 4% growth, second column 5.5% growth, third column 7.0% growth. In the percentage of G.N.P. column, the first column should show 4% growth, the second column 5.5% growth and the third column 7.0% growth.



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## CONCRETE, CONSTRUCTIVE PROPOSALS

59. As noted in the foregoing policy on SOCIAL SECURITY, (Page 3) the Chamber realizes keenly that there is a poverty problem in Canada and that the poverty cycle must be broken. Considering the fact that over 90% of the jobs in Canada are with private employers, and considering the fact that over 60% of those at the poverty level are employed, the Canadian business community, in our view, is one of the central and effective groups for dealing with this problem. It is already engaged, as noted in our policy, in making its contribution by way of providing employment, by way of training, retraining, industrial medicine, counselling, etc.

Our President, J. Allyn Taylor, in his Presidential Address to our latest Annual Meeting in Halifax, said:

"As the Chamber addresses itself to the problems and the opportunities of Canada in the 1970's, let us do it in such a way as to banish any idea that the Chamber's unwritten motto is 'What is good for business is good for Canada'. We must hold firm to another version that we can stand by with pride, 'What is good for Canada is good for business'. He also said, and this is our point: Business has no choice but to develop a total responsibility that addresses itself to the ultimate well-being of the country, that urges attach upon the desperate long-range needs of our people and our environment. Business must extend its standards of efficiency to social purpose, and The Canadian Chamber of Commerce should give the leadership that this involves".

At the same Annual Meeting, the Chairman and Chief Executive Officer of the Bank of Montreal, G. Arnold Hart, spoke on the Social and Economic Responsibility of the Business Community, informing the Annual Meeting that the Bank of Montreal had been, over time,



considering looking at the spectrum of society that is sometimes described as disadvantaged - not just economically, but physically, emotionally and socially. Specifically, what the Bank had in mind was to develop a rather small-scale pilot project in a major urban area of Canada. The objective would be to seek out young people who had never, either because of the lack of appropriate skills or because of an unsatisfactory environmental background, been able to establish a good employment record. Details of the programme would include a blend of remedial education, counselling and on-the-job training, with financial support during the process, and with the promise of a job at the end of the training period if they come up to the required standards.

60. The bank would share the results of its experience with any other employers who wished to embark on a programme with similar objectives. It has been made clear that this is not a recruiting programme for the Bank but rather a pilot project in a social programme area.

61. Another illustration of business expertise for social purposes is a project of Bell Canada to introduce current industrial training methods in the field of electricity and electronics, at the Collins Bay Penitentiary at Kingston, Ontario. The programme, of course, follows the Canadian Chamber's policy under the title "Rehabilitation". The project introduces electrical and electronics training based on the programme used in the Bell Toll Area Plant Training Centre. The course for the inmates is being made far more comprehensive to meet demands of a wide variety of potential employers. Support of all levels of the Penitentiary Services has been encouraging and effective and the penitentiary psychologist is assisting with evaluation of the program.

62. All of the foregoing, in our view, give validity to a quotation from John Kenneth Galbraith: "To the best of my knowledge there is no place in the world where a well-educated population is really poor".

63. Sensitive, thoughtful and skilled manpower training will go a long way towards taking Canadians off the welfare rolls and providing those that are working, but are poor, with upgraded, well-paying employment. We speak for our membership in offering to co-operate with government, labour, education, etc., in placing our expertise at the service of the poor.

#### CONCLUSION

64. In conclusion, it should be repeated that every individual in Canada should have an opportunity to attain a standard of living adequate for the health and well-being of himself and his family. And the best guarantee of high and rising incomes for all Canadians is a high and rising level of economic activity. To this end, government policies must create an economic environment which favours growth, in terms of proper monetary policy, reasonable fiscal policy and realistic commercial policy.

65. Such public policies together with a sensible, selective approach to Social Security will give Canada a strong, dynamic economy with high and rising productivity, and more than enough goods and services to go around.

66. One thing is certain - we will not achieve our economic goals if we saddle ourselves prematurely with programs unrealistically burdensome. We must never lose sight of the fact that the income we are seeking for all is not money as such but the production of goods and services. And on this point, the words of the American economist and journalist Henry Hazlitt are very apt: "The only real cure for poverty is production. The way to maximize production is to maximize the incentives to production".



## APPENDIX 1

### CANADA - OUTLAYS FOR HEALTH AND WELFARE (\$ millions)

#### Federal Outlays, 1969-70

##### Outlays governed by some needs test

Guaranteed income supplement to old age security	\$280.0
Canada Assistance Plan	300.3
Old Age Assistance, Blind, Disabled	8.4
Vocational rehabilitation, disabled persons	5.5
Manpower mobility	8.1
Adult occupational training allowances	134.0
Student loans	13.2
Assistance to settlers	2.5
Slum clearance, housing project losses	31.9
War veterans	116.5
Indians and Eskimos	183.8
Welfare services and research	<u>12.9</u>
Sub-total	\$1097.1

##### Outlays not subject to a needs test

Old Age Security	1480.0
Family Allowances	559.4
Family assistance	5.1
Youth allowances	53.8
Assistance for post-secondary education	328.0
Adult occupational training	121.7
Unemployment insurance (incl. \$14.2 MM in rebates to Quebec for opting out)	590.0
Manpower development and utilization	60.7
Manpower program development and research	12.4
Regional development	92.0
Cape Breton development	35.5
Hospital insurance (matching provinces - Quebec equivalent \$295 MM for opting)	625.0
Medicare	370.0
Health grants, research	<u>55.3</u>
Sub-total	\$4388.9
Federal total	<u>\$5486.0</u>

APPENDIX 1 (cont'd)

Provincial Outlays, 1969-70

Prince Edward Island	10.6
Quebec	1,161.3
Ontario	1,008.0
Manitoba	116.3
Saskatchewan	112.3
Alberta	214.5
New Brunswick	55.1
British Columbia	296.4 e.
Nova Scotia	83.1
Newfoundland	<u>61.5</u>
Provincial Total	3,119.4

Municipalities, 1968

All cities	<u>130.0</u>
<u>Total, all Canadian governments</u>	8,735.4

Sources: Federal government - K. H. Rapsey, C.M.A. Committee on Welfare, December 22, 1969. Based on Canadian Tax Foundation Material.

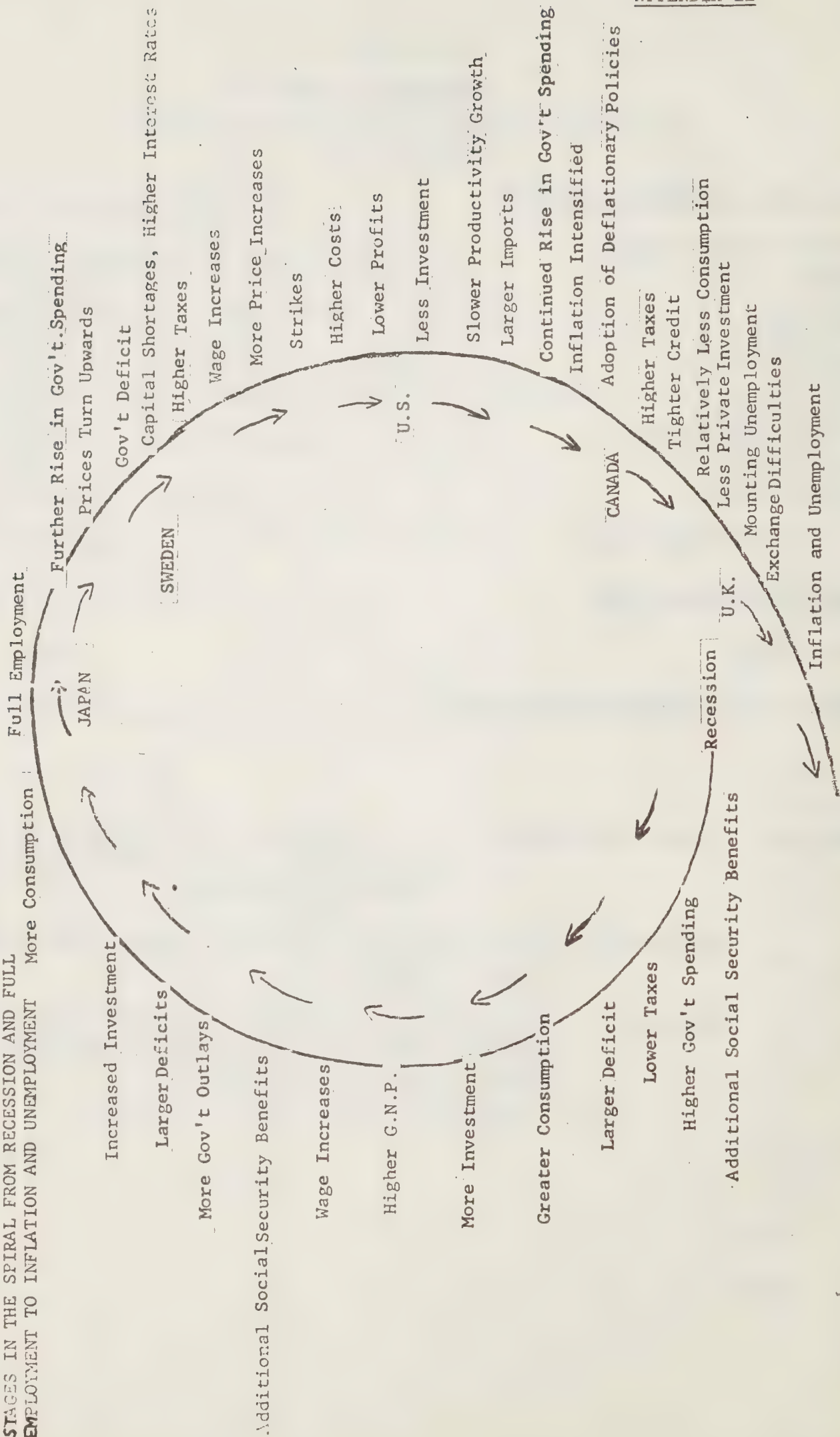
Provincial - D.B.S. 68-205, Provincial Government Finance, 1969. Tables 2 and 4.

Municipal - Based on D.B.S. 68-203, Municipal Government Finance, 1968 data, minus adjustments for transfers from Provinces - 68-205, 1967.

e. - estimated



THE IMPACT OF GOVERNMENT POLICIES ON A NATION'S ECONOMIC DEVELOPMENT, ILLUSTRATED BY THE VARIOUS STAGES IN THE SPIRAL FROM RECESSION AND FULL EMPLOYMENT TO INFLATION AND UNEMPLOYMENT



CANADA - PROFILE OF INDIVIDUAL TAXPAYERS FOR 1967

	Number	Total Income		Taxable Income		Income Tax		Total Inc.-Tax		Taxable Inc. % Total		Income Tax % Total	
		\$MM	Per Cap.	\$MM	Per Cap.	\$MM	Per Cap.	\$MM	Per Cap.	% Total Inc.	% Total Inc.	% Total Inc.	% Total Inc.
All Taxpayers	6,655,683	\$36241.9	\$5445	\$22381.6	\$3363	\$4190.5	\$630	\$32051.4	\$4816	61.8	11.6		
\$0-\$300 Group	1,665,920	3439.5	2065	1327.9	797	164.9	99	3274.6	1966	38.6	4.8		
\$0-\$3500 Group	2,193,477	5153.5	2349	2202.0	1004	283.3	129	4870.2	2220	42.7	5.5		
\$0-\$4000 Group	2,692,397	7024.5	2609	3200.4	1189	425.2	158	6599.3	2451	45.6	6.05		
\$10,000+ Group	495,767	8003.2	16143	6194.6	12495	1542.1	3111	6461.1	13033	77.4	19.3		
\$8,000+ Group	966,923	12169.2	12585	9001.6	9310	2078.0	2149	10091.2	10436	74.0	17.1		
\$7,000+ Group	1,425,013	15586.0	10937	11192.6	7854	2473.6	1736	13112.4	9202	71.8	15.9		

SOURCE: Dept. of Nat'l Revenue, Taxation;  
Taxation Statistics (1967 Tax Year)  
Table 2.



CANADA - COST OF BRINGING TAXPAYERS UP TO SPECIFIED POVERTY LINES (BASED ON 1967 TAX DATA)

	<u>\$3,000 Poverty Line</u>	<u>\$3,500 Poverty Line</u>	<u>\$4,000 Poverty Line</u>
Maximum amount - everyone under the line stops working, depends on G.A.I.	\$4,998 MM	\$7,677 MM	\$10,770 MM
Median Cost - everyone under the line keeps working, uses G.A.I. as supplement	\$1,558 MM	\$2,524 MM	\$3,745 MM
Minimum cost - median cost minus family allowances (for 1969-70 - \$562.4 MM)	\$ 996 MM	\$1,961 MM	\$3,183 MM

CANADA - COST OF G.A.I. AT VARIOUS POVERTY LINES RELATED TO \$10,000+ TAXPAYERS

	<u>\$3,000 Poverty Line</u>		<u>\$3,500 Poverty Line</u>		<u>\$4,000 Poverty Line</u>	
	<u>As a % of Present Tax Bill</u>	<u>As a % of Present Gross Income</u>	<u>% of Tax Bill</u>	<u>% of Income</u>	<u>% of Tax Bill</u>	<u>% of Income</u>
Maximum	324%	62%	498%	96%	698%	135%
Median	101	19	164	32	243	47
Minimum	65	12	127	25	206	40



CANADA - COST OF G.A.I. AT VARIOUS POVERTY LINES RELATED TO \$8,000+ TAXPAYERS

	<u>\$3,000 Poverty Line</u>		<u>\$3,500 Poverty Line</u>		<u>\$4,000 Poverty Line</u>	
	As a % of Present Tax Bill	As a % of Present Gross Income	% of Tax Bill	% of Income	% of Tax Bill	% of Income
Maximum	241%	41%	369%	63%	518%	89%
Median	75	13	121	21	180	31
Minimum	48	8	94	16	153	26

CANADA - COST OF G.A.I. AT VARIOUS POVERTY LINES RELATED TO \$7,000+ TAXPAYERS

	<u>\$3,000 Poverty Line</u>		<u>\$3,500 Poverty Line</u>		<u>\$4,000 Poverty Line</u>	
	<u>As a % of Present Tax Bill</u>	<u>As a % of Present Gross Income</u>	<u>% of Tax Bill</u>	<u>% of Income</u>	<u>% of Tax Bill</u>	<u>% of Income</u>
Maximum	202%	32%	310%	49%	435%	69%
Median	63	10	102	16	151	24
Minimum	40	6	79	13	129	20



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